

TRAVERSE AREA DISTRICT LIBRARY
TRAVERSE CITY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2004

TRAVERSE AREA DISTRICT LIBRARY

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Traverse Area District Library		County Grand Traverse
Audit Date 12/31/04	Opinion Date 6/14/05	Date Accountant Report Submitted to State: 6/28/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.			
Street Address 928 S. Garfield Avenue, Suite 3		City Traverse City	State MI
Accountant Signature <i>Kalcher, Vanderwal & Torrey, P.C.</i>		ZIP 49686	
		Date 6/14/05	

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY
MANISTEE

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

June 14, 2005

Board of Trustees
Traverse Area District Library
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Traverse Area District Library (TADL), as of and for the year ended December 31, 2004, which collectively comprise TADL's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TADL management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to satisfy ourselves as to the carrying value of the Library's resource collection due to inadequate records.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the value of the collection, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of TADL, as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT - *Continued*

As described in Note 1, TADL has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of January 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2005, on our consideration of TADL's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 10 and pages 33 through 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kalcher, Vandenberg & Toney, A.C.

Certified Public Accountants

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& TORREY, P.C.**
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Of Counsel:
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 14, 2005

Board of Trustees
Traverse Area District Library
Traverse City, Michigan 49686

We have audited the financial statements of Traverse Area District Library, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Traverse Area District Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Traverse Area District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Traverse Area District Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions noted are as follows:

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (continued)***

- 1) The software system used to account for the cost of the Library's resource collection does not accurately account for those costs.
- 2) Detail accounting records for fixed assets are not updated on a current basis.
- 3) Cutoff of year end transaction was not properly accomplished in the area of cash disbursements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 1 and 2 to be material weaknesses.

This report is intended for the information of management and the Board of Trustees. However, this report is a matter of public record and its distribution is not limited.

Kalcher, Vandeword & Toney, P.C.

Certified Public Accountants

TRAVERSE AREA DISTRICT LIBRARY

LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FISCAL YEAR 2004

The MD&A is intended to serve as an overview analysis of the financial condition and operating results of the Library.

Please direct questions regarding this report to:

Mike McGuire, Director
Traverse Area District Library
610 Woodmere Avenue
Traverse City, Michigan 49686
(231) 932-8500 (voice)
(231) 932-8538 (fax)
libadmin@tadl.tcnnet.org (email)

TRAVERSE AREA DISTRICT LIBRARY

LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(CONTINUED)

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full-accrual methods.

The fund balance sheet and the individual funds statement of revenue, expenditures, and changes in fund balance include information about the Library's General Fund, Special Revenue Fund, Debt Service Fund, Capital Projects Fund, and Permanent Fund under the modified-accrual method. The modified-accrual basis focuses on current financial resources and provides a more detailed view about the accountability of the Library's sources and uses of funds.

The reconciliations found at pages 14 and 16 represent adjustments necessary to convert the modified-accrual financial statements to the "Library as a Whole" financial statements under the full-accrual basis. The full-accrual basis focuses on long-term economic resources and presents a statement of not only how services were financed in the short-term, but also what remains for future spending.

Under the former method of accounting, capital outlay is an expense. Under the new system, capital outlay is capitalized as an asset, and is depreciated over the estimated useful lives of the assets.

Under the former method of accounting, the Library has traditionally accounted for compensated absences under Long Term Debt Transactions. Under Governmental Accounting Standards Board Statement Number 34 (GASB34), these are now reflected in the statement of net assets.

As this is the first year of the Library Management's Discussion and Analysis report, this report does not show data comparative to previous fiscal years. In the future, the report will include such information, consistent with GASB34.

Financial data for the library is contained in pages 11 through 16 and 33 through 35.

TRAVERSE AREA DISTRICT LIBRARY

LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **(CONTINUED)**

The Library as a Whole

The Library's net assets increase by \$252,473 this year.

The Library's primary source of revenue is from property taxes (81%) funding both the General Fund and the Debt Retirement Fund. Other major sources of funding include penal fines (9%), and charges for services rendered (6%).

Personnel costs (salaries, wages and fringe benefit costs) is the Library's primary expense (62%) of general fund expenditures. This is followed by contractual arrangements with participating libraries (9%) and materials expenses (8%).

The Library's Funds

The Library uses its general fund to account for all financial transactions not otherwise accounted for in another fund. As noted above, the majority of revenues are derived from voter-approved property taxes. The majority of expenses are applied against personnel costs.

Most of the Board designated funds continued to earn interest with very few seeing expenditures. The Slear Trust Fund's long term investment helps fund children's programming. During the year, the Capital Projects Fund was closed out with the last monies of this fund being used for computer purchases.

The Library's Budgetary Highlights

We began doing our own in-house accounting this year. Several adjustments were not made during the year. This accounted for much of the variance between original budget, revised budget, and actual. Now that we have a year of experience, we anticipate a more accurate forecast during the year and at year end.

The budget was amended for expenses in November. Postage and repair and maintenance were increased. These increases were offset by a decrease in the personnel budget so no change occurred with the budget totals.

Major variances include a decrease in tax revenue due to unanticipated TIF district funding. Other revenue reductions occurred in penal fines and interest income.

TRAVERSE AREA DISTRICT LIBRARY

LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **(CONTINUED)**

Capital Assets and Long-Term Debt Activity

At the end of the fiscal year, the Library had \$8,009,656 invested in land, buildings, furnishings, equipment, and materials (books, magazines, A-V materials, etc.).

The Library's long-term debt activity consists of capped accumulated compensation for unused leave to be paid to eligible employees on retirement or death. Library bonds were paid down according to schedule with principal and interest payments covered.

Next Year's Anticipated Budget Factors

Income

Income from all sources has remained relatively constant during the past several years. Local property tax revenue has increased at between 5-6% while interest and state aid have declined. Considering the economic strength of the Traverse City area, especially with regard to property tax values, we anticipate no major increases or decreases in revenues.

Expenses

Regular, non-administrative Library employees are represented by Teamsters Local 214. The current employment agreement expires December 31, 2005. Negotiations for a revised agreement will begin this summer. Changes to the agreement are unknown at this time.

The Board of Trustees had previously adopted statements of "Intent to Operate Branch Libraries" in Blair and Long Lake Townships, both of which are located within the District. The township would be obligated to provide and maintain a suitable facility and the Library would be obligated to furnish, stock and operate the facility as a branch library. The statement of intent with Blair Township expired in November, 2004 after a bonding vote failed. The Board has not addressed whether it will adopt a new statement. The statement of intent with Long Lake Township expires in June, 2005. The Board may or may not renew this statement. Establishing new branches would necessarily require additional operational expenses, a shift in current operational expenses, or some combination, thereof.

A developed piece of property adjacent to the library on Woodmere Avenue recently went to market. The Library is considering purchasing or leasing a part or all of the property for various

TRAVERSE AREA DISTRICT LIBRARY

LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(CONTINUED)

library activities, including housing the local public access station which the Library administers for the Cherry Capital Cable Council, an intergovernmental unit formed to negotiate uniform cable television franchise agreements. Purchase or lease of this property would have a major impact on expenses.

Bond Debt

Bond debt was refinanced in 2005 in the amount of \$5,920,000. The purpose of the refinancing was to lower the interest costs to the taxpayers over the remaining life of the bonds.

TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

ASSETS

Cash and cash equivalents	\$	620,167
Investments		1,314,050
Accrued interest receivable		12,764
Accounts receivable		2,601
Accrued revenue		33,477
Capital assets:		
Non-depreciable		345,545
Depreciable (net)		<u>7,664,111</u>
Total Assets	\$	<u>9,992,715</u>

LIABILITIES

Accounts payable	\$	7,738
Employment taxes payable		6,182
Accrued payroll		33,261
Accrued retirement contributions		50,706
Accrued interest		76,767
Deferred revenue		549,683
Non-current liabilities		
Due within one year:		
Bonds payable		355,000
Due in more than one year:		
Compensated absences		518,175
Bonds payable		<u>6,225,000</u>
Total Liabilities	\$	<u>7,822,512</u>

NET ASSETS

Invested in capital assets (net of related debt)	\$	1,429,656
Restricted for:		
Renewal and replacement		265,808
Debt service		79,366
Permanently restricted		20,000
Unrestricted		<u>375,373</u>
	\$	<u><u>2,170,203</u></u>

The accompanying notes are an integral part of these financial statements.

**TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

				Governmental Activities
				Net (Expenses)
	Expenses	Charges For Services	Operating Grants/ Contributions	Revenue and Changes In Net Assets
Functions/Programs				
Governmental activities:				
Library Services	\$ <u>4,401,310</u>	\$ <u>291,025</u>	\$ <u>207,548</u>	\$ <u>(3,902,737)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 3,007,638
Property taxes, levied for debt service				728,036
Fines and forfeitures				393,772
Investment earnings				25,764
Total General Revenues				\$ <u>4,155,210</u>
Change in Net Assets				\$ 252,473
Net assets - beginning of year				<u>1,917,730</u>
Net assets - end of year				\$ <u>2,170,203</u>

The accompanying notes are an integral part of these financial statements.

**TRAVERSE AREA DISTRICT LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

Assets	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	Totals Governmental Funds
Cash and cash equivalents	\$ 461,874	\$ 0	\$ 158,293	\$ 0	\$ 0	\$ 620,167
Investments	1,030,757	263,212	0	0	20,081	1,314,050
Accrued interest receivable	10,168	2,596	0	0	0	12,764
Accounts receivable	2,601	0	0	0	0	2,601
Total assets	\$ 1,505,400	\$ 265,808	\$ 158,293	\$ 0	\$ 20,081	\$ 1,949,582

Liabilities and Equity

Liabilities

Accounts payable	\$ 7,738	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,738
Employment taxes payable	6,182	0	0	0	0	6,182
Accrued payroll	33,261	0	0	0	0	33,261
Accrued retirement contributions	50,706	0	0	0	0	50,706
Deferred revenue	470,756	0	78,927	0	0	549,683
Total liabilities	\$ 568,643	\$ 0	\$ 78,927	\$ 0	\$ 0	\$ 647,570

Fund Balances:

Reserved for debt service	\$ 0	\$ 0	\$ 79,366	\$ 0	\$ 0	\$ 79,366
Reserved for board purposes	561,460	0	0	0	0	561,460
Reserved for permanent fund	0	0	0	0	20,081	20,081
Unreserved, reported in:						
General fund	375,297	0	0	0	0	375,297
Special revenue fund	0	265,808	0	0	0	265,808
Capital projects	0	0	0	0	0	0
Total fund equity	\$ 936,757	\$ 265,808	\$ 79,366	\$ 0	\$ 20,081	\$ 1,302,012
Total Liabilities and Fund Equity	\$ 1,505,400	\$ 265,808	\$ 158,293	\$ 0	\$ 20,081	\$ 1,949,582

The accompanying notes are an integral part of these statements.

**TRAVERSE AREA DISTRICT LIBRARY
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Fund Balance - Total governmental funds	\$	1,302,012
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the General Fund.

Governmental capital assets	\$	11,852,318	
Less accumulated depreciation		<u>(3,842,662)</u>	8,009,656

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	\$	(6,580,000)	
Compensated absences		<u>(518,175)</u>	(7,098,175)

Interest expense recognized on bonds payable is subject to full accrual on the government-wide statements.

Accrued interest payable	(76,767)
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Some revenues are subject to full accrual on the government-wide statements even though they do not provide current financial resources for government funds.

Accrued reimbursements - Universal Service Administrative Company	<u>33,477</u>
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Net Assets - Governmental Activities	\$	<u>2,170,203</u>
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The accompanying notes are an integral part of these financial statements.

TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
Revenue						
Taxes	\$ 3,007,638	\$ 0	\$ 728,036	\$ 0	\$ 0	\$ 3,735,674
Federal grants	10,886	0	0	0	0	10,886
State grants	138,752	0	0	0	0	138,752
Other grants	4,190	0	0	0	0	4,190
Charges for services	291,025	0	0	0	0	291,025
Fines and forfeitures	393,772	0	0	0	0	393,772
Investment income	23,284	605	1,608	267	0	25,764
Contributions and other income	20,243	0	0	0	0	20,243
	<u>\$ 3,889,790</u>	<u>\$ 605</u>	<u>\$ 729,644</u>	<u>\$ 267</u>	<u>\$ 0</u>	<u>\$ 4,620,306</u>
Expenditures						
Personnel	\$ 2,372,396	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,372,396
Supplies	469,780	0	0	0	112	469,892
Other services and charges	918,780	0	325	0	0	919,105
Capital outlay	41,472	0	0	26,253	0	67,725
Debt service:						
Principal	0	0	335,000	0	0	335,000
Interest	0	0	352,563	0	0	352,563
	<u>\$ 3,802,428</u>	<u>\$ 0</u>	<u>\$ 687,888</u>	<u>\$ 26,253</u>	<u>\$ 112</u>	<u>\$ 4,516,681</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ 87,362</u>	<u>\$ 605</u>	<u>\$ 41,756</u>	<u>\$ (25,986)</u>	<u>\$ (112)</u>	<u>\$ 103,625</u>
Other Financing Sources (Uses)						
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 3,694	\$ 0	\$ 3,694
Operating transfers out	(3,694)	0	0	0	0	(3,694)
Total other financing sources (uses)	<u>\$ (3,694)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,694</u>	<u>\$ 0</u>	<u>\$ 0</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 83,668</u>	<u>\$ 605</u>	<u>\$ 41,756</u>	<u>\$ (22,292)</u>	<u>\$ (112)</u>	<u>\$ 103,625</u>
Fund balance - beginning of year	825,728	265,203	37,610	22,292	20,193	1,171,026
Prior period adjustment	27,361	0	0	0	0	27,361
Restated fund balance - beginning of year	<u>853,089</u>	<u>265,203</u>	<u>37,610</u>	<u>22,292</u>	<u>20,193</u>	<u>1,198,387</u>
Fund Balance - End of Year	<u>\$ 936,757</u>	<u>\$ 265,808</u>	<u>\$ 79,366</u>	<u>\$ 0</u>	<u>\$ 20,081</u>	<u>\$ 1,302,012</u>

The accompanying notes are an integral part of these statements.

**TRAVERSE AREA DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF ACTIVITIES GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds \$ 103,625

Amounts reported for governmental activities in the Statement of
Activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets
is depreciated over their estimated useful lives.

Expenditures for resource collection	\$	289,553	
Expenditures for furniture and equipment		49,967	
Less current year depreciation		<u>(524,028)</u>	(184,508)

Repayment of bond principal is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets. 335,000

Interest expense related to the outstanding bonds is adjusted
to account for the fact that interest in the fund statements is
recognized when paid rather than when accrued.

Interest accrued for November 1, 2004 - December 31, 2004	\$	(76,767)	
Interest related to November 1, 2003 - December 31, 2003		<u>80,675</u>	3,908

Some revenues reported in the statement of activities do not
provide current financial resources and therefore are not
reported as revenues in governmental funds.

Change in accrual of reimbursements from Universal Service Administrative Company			33,477
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Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Change in compensated absences			<u>(39,029)</u>
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Change in net assets of governmental activities	\$		<u>252,473</u>
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The accompanying notes are an integral part of these financial statements.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Traverse Area District Library (TADL) was established January 1, 1983, pursuant to the Library Act of the State of Michigan. The District Library operates under an appointed Board of Trustees. The Board is served by an Executive Director.

The Traverse Area District Library receives tax revenues and penal fine revenues from Grand Traverse County. Pursuant to contractual relationships, in return for library services, the Traverse Area District Library also receives penal fine revenues from the Townships of Inland and Almira of Benzie County, and from Elmwood Township of Leelanau County.

The Traverse Area District Library maintains associate library relationships with the Peninsula Community, Fife Lake Public and Interlochen Public Libraries. This contractual relationship provides for an exchange of library services. The agreements also provide for payments to the associate members of amounts based on varying factors including statistics provided by the Library of Michigan, millage allowances and penal fine revenue sharing. Supplemental payments are also made to the associate members at the discretion of the Board of Trustees. The Library operates branches in Kingsley and East Bay Township.

The Traverse Area District Library also serves as the Regional Library for the blind and physically handicapped. The expenditures related to this program are partially funded through State and Federal grants.

The criteria established for determining the various agencies, boards, commissions and other governmental organizations to be included in the District Library's general purpose financial statements depends on the extent such organizations are controlled or dependent on the District Library. The Governmental Accounting Standards Board establishes the following criteria to determine the level of control a unit exercises:

- selection of governing authority
- designation of management
- ability to significantly influence operations
- budgetary authority
- responsibility to fund deficits or receive surplus funds
- fiscal management
- scope of public service
- special financing arrangements
- providing significant subsidies

Based on the above guidelines, there were no other entities included in this report.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

TADL's basic financial statements include both TADL as a Whole and its individual fund financial statements.

Government-Wide Financial Statements

TADL's Government-Wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below. Fiduciary funds are not included in these statements.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. TADL's net assets are reported in two parts; invested in capital assets and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons of the Library for replacements and late fees, classes offered, special orders, equipment rental, etc. Program revenue also includes reimbursement for TCTV2 operational expense and broadcast of the city commission meetings for the City of Traverse City.

Fund Financial Statements

TADL's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, TADL considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by TADL.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

TADL reports the following governmental funds:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the District Library. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenues.

Special Revenue Fund - During the year ended 1986, the District Library Board established a Public Improvement Fund in accordance with P.A. 136 of 1956. The purpose of the fund is to accumulate money for acquiring, constructing, extending, altering, repairing, or equipping public improvements or buildings.

Debt Service Fund - During the year ended 1996, the District Library Board issued Unlimited Tax General Obligation Bonds in the amount of \$ 8,340,000 less an issuance discount of \$ 104,250, resulting in bond proceeds of \$ 8,235,750. These bonds were authorized at an election held on August 6, 1996 by the residents of Traverse City and Grand Traverse County, Michigan. They were issued for the purpose of paying the cost of acquiring, constructing, renovating, furnishing and equipping library facilities in the District and acquiring and improving sites thereof. This fund was established for the purpose of accumulating funds to service bond obligations, reported in the Long-Term Debt Account Group as they become due. Revenues are derived primarily from tax assessments in the District and from private donations.

Capital Projects Fund - This fund is used to account for the acquisition or construction of major capital facilities. Revenues are derived primarily from the issuance of bonds which will be paid for through the Debt Service Fund.

Permanent Fund - The Permanent Fund is used to account for trust principal, related interest income and the transfers of such income to the General Fund for operational purposes. The Permanent Fund maintained by the District Library is the Katharine D. Lewis Trust.

Accounting Change

Effective January 1, 2004, TADL implemented the provisions of *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34)*, along with all related statements and interpretations. Changes to TADL's financial statements as a result of GASB No. 34 are as follows:

1. A management's Discussion and Analysis (MD&A) section providing analysis of TADL's overall financial position and results of operations has been included.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

2. Government financial statements (Statement of net assets and statement of activities) prepared using full accrual accounting for all of TADL's activities have been provided.
3. The fund financial statements focus on major funds rather than fund types.

Budgetary Basis and Data

The General and Debt Service Funds are under formal budgetary control. Budget amounts shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the District Library Board. The total expenditures budget is subtotaled into four broad categories and within each of these categories are several specific line items. The District Library Director, may, at his discretion, adjust line items within each category but may not adjust the subtotal of any category without Board authorization.

Encumbrance System

The Library does not use an encumbrance system.

Capital Assets

Capital assets are defined by TADL as assets with an initial cost of \$ 500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following lives:

Building and improvements	40 years
Collections – books, DVDs, videotapes, etc.	6 years
Furniture and equipment	3 – 40 years

Deferred Revenues

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. See Note 7 for a description of deferred property tax revenues.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

The 2002 union contract guarantees for payment of leave time. Upon voluntary quit, termination, retirement, or death, unused Current Leave (leave earned during the current year) is paid out at the employee's current rate of hourly pay. Additionally, upon retirement or death, leave remaining in the employee's Reserve Sick Leave Bank will be paid out at one-half (1/2) of the employee's current rate of hourly pay, not to exceed one hundred thirty days.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Fund Balance

The unreserved - undesignated fund balance for the general fund represents the amount available for budgeting future operations. Reserved fund balance for governmental funds represent that portion of fund equity which has been legally segregated for specific purposes and or does not constitute current available spending resources.

Property Taxes

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls on March 1. The total tax levy was based on a millage rate of .9990 and total State Taxable Valuation of approximately \$3,080,310,632.

Note 2 - Stewardship, Compliance and Accountability

All Funds have positive fund balances at December 31, 2004.

The 2004 budget was presented and approved on September 25, 2003. It was subsequently amended on December 9, 2004. The budget is allowed to be amended by a majority vote of the board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 3 - Deposits with Financial Institutions

Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the District Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation repurchase agreements.
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Certain other restrictions also apply including a requirement for the Board of Trustees to formally adopt an Investment Policy which includes specified matters. This required policy was adopted on February 12, 1998.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 3 - Deposits with Financial Institutions (continued)

During 2004, the Library was in compliance with statutory requirements.

Deposits

At year-end, the carrying amount of the deposits was \$ 739,376. Of this balance, \$ 558,376 was uninsured and uncollateralized. Management evaluates the institutions in which the Library deposits its funds and assesses the level of risk associated with the institution. Management believes that the Library is not exposed to any significant credit risk on its cash deposits.

Investments

The Library's investments, which were fairly uniform throughout the year, are categorized to give an indication of the level of risk assumed by the Library at fiscal year end. The categories are described below:

Category 1 - Insured or registered, or securities held by the Library or its agent in the Library's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Library's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the Library's name.

Investments, categorized by level of risk, are:

	Category			Fair	
	1	2	3	Value	Cost
U.S. government securities	\$ 0	\$ 493,099	\$ 0	\$ 493,099	\$ 501,828
Money market funds	0	75,403	0	75,403	75,403
Commercial paper		745,548	0	745,548	763,950
	<u>\$ 0</u>	<u>\$ 1,314,050</u>	<u>\$ 0</u>	<u>\$ 1,314,050</u>	<u>\$ 1,341,181</u>

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 4 - Property and Equipment

A summary of changes in general fixed assets for the year ended December 31, 2004 follows:

	Beginning Balance	Additions	Adjustments and Deletions	Ending Balance
<u>Assets:</u>				
Land	\$ 345,545	\$ 0	\$ 0	\$ 345,545
Building & improvements	7,437,943	0	0	7,437,943
Collections – Books, etc.	2,875,937	289,553	(496,199)	2,669,291
Furniture & Equipment	1,624,332	49,967	(274,760)	1,399,539
Totals	<u>\$ 12,283,757</u>	<u>\$ 339,520</u>	<u>\$ (770,959)</u>	<u>\$ 11,852,318</u>
<u>Accumulated Depreciation:</u>				
Land	\$ 0	\$ 0	\$ 0	0
Building & improvements	945,456	188,002	0	1,133,458
Collection – Books, etc.	1,675,700	233,418	0	1,909,118
Furniture & Equipment	697,478	102,608	0	800,086
	<u>\$ 3,318,634</u>	<u>\$ 524,028</u>	<u>\$ 0</u>	<u>\$ 3,842,662</u>

Beginning in late 2000 and continuing through 2001, the Library estimated its cost of the collection by applying estimated percentages of cost to the replacement value of each of the items in its collection data base. During 2001, the Library began using actual costs for its collection items. In 2004, an adjustment was made to the software program which tracks the activity in the collection. In doing so, the original cost of the collection was written down by a total of \$321,614. This reduction is reflected above in the adjustments and deletions column, along with normal 2004 deletions from the collection.

Total capital outlay for furniture and equipment for 2004 was \$67,725. However, of these expenditures, \$16,528 was expended for equipment related to the TCTV2 contract. These expenditures are covered by the revenue received on the contract, and the assets are, therefore, the property of Cherry Capital Cable Council and are not reflected in the Library's total balance. Also, a portion of the items purchased fell below the capitalization policy of the Library.

In compiling the final listing of furniture and equipment, the Library has removed those assets, which were capitalized in the past, whose costs were less than \$ 500 individually. This resulted in the adjustment amount of \$ 274,760.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 5 - Long-Term Debt

Unlimited Tax General Obligation Bonds, issued by the Library District on October 1, 1996, were approved by the residents of the District by referendum on August 6, 1996. They were issued for the purpose of paying the cost of acquiring, constructing, renovating, furnishing and equipping library facilities in the District and are backed by the full faith and credit of the Library District.

The original issue amount was \$ 8,340,000, less an issuance discount of \$ 104,250, with varying interest rates. Interest is payable each year on May 1 and November 1, commencing May 1, 1997. Principal is payable annually on May 1. The annual debt service requirements to maturity are as follows:

Serial Bonds

Year	Principal Due	Interest Rate	Interest Due	Total	Remaining Balance at Year End
1997	\$ 75,000	7.00%	\$ 500,082.29	\$ 575,082.29	\$ 8,265,000
1998	150,000	7.00%	453,537.50	603,537.50	8,115,000
1999	180,000	7.00%	441,987.50	621,987.50	7,935,000
2000	205,000	7.00%	428,512.50	633,512.50	7,730,000
2001	240,000	7.00%	412,937.50	652,937.50	7,490,000
2002	270,000	7.00%	395,087.50	665,087.50	7,220,000
2003	305,000	7.00%	374,962.50	679,962.50	6,915,000
2004	335,000	7.00%	352,562.50	687,562.50	6,580,000
2005	355,000	6.75%	328,856.25	683,856.25	6,225,000
2006	375,000	6.50%	304,687.50	679,687.50	5,850,000
2007	395,000	5.00%	282,625.00	677,625.00	5,455,000
2008	420,000	5.00%	262,250.00	682,250.00	5,035,000
2009	445,000	5.00%	240,625.00	685,625.00	4,590,000
2010	470,000	5.00%	217,750.00	687,750.00	4,120,000
2011	500,000	5.00%	193,500.00	693,500.00	3,620,000
2012	530,000	5.00%	167,750.00	697,750.00	3,090,000
2013	560,000	5.00%	140,500.00	700,500.00	2,530,000

Term Bonds

2014	595,000	5.00%	111,625.00	706,625.00	1,935,000
2015	630,000	5.00%	81,000.00	711,000.00	1,305,000
2016	650,000	5.00%	49,000.00	699,000.00	655,000
2017	655,000	5.00%	16,375.00	671,375.00	0
	<u>\$ 8,340,000</u>		<u>\$ 5,756,213.54</u>	<u>\$ 14,096,213.54</u>	

The total interest expense related to the bonds and included as a direct function expense in the statement of activities amounts to \$ 348,655.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 6 - Pension Plan

The District Library participates in two retirement programs as detailed below:

Employees Investment Plan and Trust - The District Library established on June 1, 1985, a self-administered defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees age 21 or over are eligible to participate after three months of service. As authorized by the plan document, each participant may contribute from 1% to 15% of his/her compensation to this plan. In addition, the employer may contribute each year, depending on its profitability. The participants in the Plan are vested depending on their years of service. The employee will be credited with a year of service for each Plan year in which at least 1,000 hours of service was completed. All contributions made by the employees are 100% vested at all times.

The District Library's total payroll for the year ended December 31, 2004 was \$ 1,798,731. The total amount of wages of participants covered under the plan was \$ 1,809,282. The District Library's contribution to the plan was \$ 88,322 (4.9% of covered payroll) and the participant's contribution was \$ 199,844 (11.05%).

Defined Benefit Plan - Municipal Employees Retirement System of Michigan

Description of Plan and Plan Assets

The Traverse Area District Library participates in a multiple-employer defined benefit pension plan with the Michigan Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death, duty-connected death, member contributions, post-retirement adjustments and death-after-retirement surviving spouse benefits. The service requirement is computed using credited service at the time of termination of membership multiplied by a factor percent times the final average compensation (FAC). There exist a number of different options to choose from with varying reductions and calculations.

MERS was organized pursuant to the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220, as embodied in the MERS Plan Document (as revised). MERS issues a stand-alone financial report, which is available to employees at the Library's administrative offices.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Traverse Area District Library's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Library is required to contribute at an actuarially determined rate; the current rate was 8.85 percent at December 31, 2004.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 6 - Pension Plan (continued)

Annual Pension Cost

During the fiscal year ended December 31, 2004, the Traverse Area District Library's contributions totaling \$ 137,138 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability over the amortization period of 30 years, less the accelerated funding credit, if available. In general terms, the normal cost is the cost of benefit rights accruing on the basis of current service. Technically, the normal cost is the level percentage-of-salary contribution required each year, with respect to each employee, to accumulate over his or her projected working lifetime the reserves needed to meet the cost of earned benefits. The normal cost represents the ultimate cost of the Retirement System if the unfunded liability is paid up and the actual experience of the system conforms to the assumptions.

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Amortization of Unfunded Actuarial Accrued Liabilities

Unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a period ranging from 30 to 38 years.

Asset Valuation Method

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 96,817	100%	\$ 0
2003	122,860	100%	0
2004	137,138	100%	0

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 6 - Pension Plan (continued)

Required Supplemental Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/95	\$766,856	\$858,152	\$91,926	89%	\$402,281	23%
12/31/96	854,842	933,963	79,121	92%	393,749	20%
12/31/97	957,973	1,029,587	71,614	93%	495,514	14%
12/31/98	1,065,438	1,119,465	54,027	95%	706,519	8%
12/31/99	1,250,367	1,237,319	(13,048)	101%	1,101,705	0%
12/31/00	1,383,472	1,452,671	69,199	95%	1,083,082	6%
12/31/01	1,486,045	1,652,962	166,917	90%	1,199,803	14%
12/31/02	1,562,456	1,836,999	274,543	85%	1,304,056	21%
12/31/03	1,744,032	2,035,383	291,351	86%	1,404,426	21%
12/31/04	1,928,066	2,240,158	312,092	86%	1,539,301	20%

Note 7 - Deferred Revenues

The \$ 470,756 (General Fund) and \$ 78,927 (Debt Service Fund) balances include \$ 442,688 of 2005 property taxes collected in December, 2004. The District Library budgets their property tax revenues in the year subsequent to the levy. Therefore, the 2004 levy will be reported for the calendar year 2005. Collections through December 31, 2004 are considered revenues for 2005.

Note 8 - Long-Term Debt

Compensated Absences

The amount of \$ 518,175 equals the accrued vacation and sick leave at December 31, 2004.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 8 - Long-Term Debt (continued)

Summary of Long-Term Debt Transactions:

	Beginning Balance 01/01/04	Additions (Net)	Ending Balance 12/31/04
Compensated absences	\$ 479,146	\$ 39,029	\$ 518,175
General obligation bonds	6,915,000	(335,000)	6,580,000
Total long-term debt	<u>\$ 7,394,146</u>	<u>\$ (295,971)</u>	<u>\$ 7,098,175</u>

Note 9 – Permanent Fund

The fund balance of the Permanent Fund is reserved and can be used only as investment principal. Any income earned from the investments is transferred to the General Fund for acquisition of library books and materials.

Note 10 - Commitments

On June 25, 1999, the Library entered into a contract with Cherry Capital Cable Council whereby the Library will act as fiscal agent of the Cable Council for administration of cable television public and community access, training, equipment, production, and distribution. The contracted fee received by the Library will be dependent on estimated costs incurred and the revenues received by the Cable Council each year. Any excess fees received by the Library over and above its costs are to be carried forward to the following fiscal year. The contract is extended through December 31, 2004, and can be canceled by giving six months written notice.

The Traverse Area District Library has entered into a lease with the Village of Kingsley for the use of premises located at 104 S. Brownson Avenue, Kingsley, Michigan. The lease calls for annual lease payments of one dollar (\$ 1.00) and other good and valuable consideration. It is automatically renewed from year to year on the same terms and conditions unless one of the parties notifies the other in writing no less than ninety (90) days prior to the end of the term of the lease of its desire to terminate the lease. The Library also leases facilities from East Bay Township under similar terms.

Note 11 - Risk Management

The Library has provided risk management of possible losses due to property damage, general liability, errors and omissions and workers' compensation claims, through the purchase of commercial insurance policies. Insurance claims have not exceeded coverage amounts during the past three years.

TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Note 12 - Fund Balance - Reserved for Board Designation

During 1996, the Board began a process by which general fund monies would be set aside for future needs of the library. As a result, three Board designations were established as follows:

Budget Stabilization: On recommendation of staff the Board of Trustees of the Traverse Area District Library has designated a portion of the general fund balance to off-set the effect of any significant increase in expenses or potential decrease in revenues which otherwise impact the general fund and operations of the Library. The designation was established in 1997 in recognition that the Library was constructing a 58,000 square foot facility in Traverse City which will require increased staff and other operating expenses, and was negotiating with Kingsley Public Library to establish a branch in Mayfield or Paradise Township of Grand Traverse County. Expected increase in operations, coupled with normal variations in revenues related to penal fines and state grants, resulted in the Boards approval of staff's recommendation.

Equipment Replacement At the recommendation of staff, the Board of Trustees of the Traverse Area District Library allocated a portion of its general fund for equipment replacement to replace and upgrade obsolete and/or damaged equipment. Again, the increase in operational facilities related to construction of a new library and negotiations to establish a branch in the southern portion of Grand Traverse County created some uncertainty which resulted in the Board's allocation of a portion of the general fund for equipment.

Children's Programming In 1999, the Library received a contribution of \$ 81,000 which the Board of Trustees has set aside for the purpose of using the related earnings to support children's programming.

Unemployment Benefits The Library is a reimbursing employer with the Michigan Unemployment Insurance Agency and, therefore pays benefits only after an employee has filed a claim for unemployment compensation. The Board has reserved a portion of the fund balance to cover potential future claims.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 12 - Fund Balance - Reserved for Board Designation (continued)

Activity for these reserved funds during 2004 was as follows:

<u>Purpose of Reservation</u>	<u>Beginning Reserved Balances</u>	<u>Current Earnings Reserved</u>	<u>Current Year Expenditures</u>	<u>Ending Reserved Balance</u>
Budget stabilization	\$ 302,191	\$ 699	\$ 0	\$ 302,890
Equipment replacement	149,862	347	0	150,209
Children's programming	81,262	3,544	(3,806)	81,000
Unemployment Benefits	27,361	-	-	27,361
	<u>\$ 560,676</u>	<u>\$ 4,590</u>	<u>\$ (3,806)</u>	<u>\$ 561,460</u>

Note 13 - Contingencies

During 2001, the Library's Board of Trustees approved the concept of establishing branch libraries in Blair and Long Lake Townships. Each township is required to arrange for physical facilities and locations acceptable to the Library Board. If this is done, the Library will be responsible for equipping and supplying each branch library and then also staffing and operating the branches. The Board estimates that the anticipated growth in the District's tax base will provide the additional funding needed to operate these branches. Total possible costs of operation for these branches is unknown at this time. Blair Township's option has now expired, and Long Lake Township has until June 30, 2005, to meet the above requirements.

**TRAVERSE AREA DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Note 14 – Prior Period Adjustments

A number of years ago TADL recognized as a liability, an amount to be used for future unemployment benefits claims. This balance is more properly a reserved fund balance and therefore the opening balance of the reserved general fund balance has been restated to reflect this correction. This correction results in a decrease in liabilities and an increase in reserved fund balance in the amount of \$ 27,361.

Note 15 – Subsequent Event

In 2005, the Library has refinanced its bond debt through the issuance of Refunding Bonds. The effect of this refinancing was to lower the interest rates for the debt being retired in 2006 and beyond from the current rate of 5% to rates ranging from 2.5% to 4%.

**TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF REVENUE AND EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
(Page 1 of 2)**

	Original Budget	Final Budget	Actual	Variance (Unfavorable) Favorable
Revenue				
Property taxes - current	\$ 3,057,230	\$ 3,057,230	\$ 3,007,638	\$ (49,592)
Federal grants	0	0	10,886	10,886
State grants	138,443	138,443	138,752	309
Other grants	4,000	4,000	4,190	190
Charges for services	276,600	276,600	291,025	14,425
Fines and forfeitures	413,000	413,000	393,772	(19,228)
Investment income	40,000	40,000	23,284	(16,716)
Contributions	6,000	6,000	17,638	11,638
Other income	0		2,605	2,605
Total revenue	\$ 3,935,273	\$ 3,935,273	\$ 3,889,790	\$ (45,483)
Expenditures				
Personnel				
Salaries and wages	\$ 1,846,600	\$ 1,829,600	\$ 1,798,731	\$ 30,869
Social security taxes	35,050	35,050	35,632	(582)
Medical insurance	291,250	291,250	279,842	11,408
Life insurance	7,000	7,000	6,027	973
Retirement contributions	215,500	215,500	225,460	(9,960)
Workers' compensation insurance	4,400	4,400	5,958	(1,558)
Disability insurance	22,700	22,700	20,746	1,954
Total personnel	\$ 2,422,500	\$ 2,405,500	\$ 2,372,396	\$ 33,104
Supplies				
Expendable/Office supplies	\$ 143,800	\$ 150,800	\$ 154,875	\$ (4,075)
Operating supplies	300,000	300,000	289,553	10,447
Repair and maintenance	20,000	20,000	25,352	(5,352)
Total supplies	\$ 463,800	\$ 470,800	\$ 469,780	\$ 1,020
Other services and charges				
Professional and contract services	\$ 182,200	\$ 182,200	\$ 177,214	\$ 4,986
Communications	40,000	40,000	54,279	(14,279)
Transportation/travel	35,700	35,700	19,141	16,559
Printing and publishing	16,000	16,000	9,980	6,020
Insurance and bonds	30,000	30,000	26,697	3,303
Public utilities	95,000	95,000	96,256	(1,256)
Repairs and maintenance	183,400	193,400	191,994	1,406
Aid to other units	348,851	348,851	340,152	8,699
Miscellaneous	4,700	4,700	3,067	1,633
Total other services and charges	\$ 935,851	\$ 945,851	\$ 918,780	\$ 27,071
Capital outlay	\$ 82,300	\$ 82,300	\$ 41,472	\$ 40,828
Total expenditures	\$ 3,904,451	\$ 3,904,451	\$ 3,802,428	\$ 102,023

**TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF REVENUE AND EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
(Page 2 of 2)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable) Favorable</u>
<u>Excess Revenue Over (Under) Expenditures</u>	\$ 30,822	\$ 30,822	\$ 87,362	\$ 56,540
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	0	(3,694)	(3,694)	0
Total other financing sources (uses)	\$ 0	\$ (3,694)	\$ (3,694)	\$ 0
<u>Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses</u>	\$ 30,822	\$ 27,128	\$ 83,668	\$ 56,540
Fund balance - beginning of year	\$ 825,728	\$ 825,728	\$ 825,728	\$ 0
Prior period adjustment	0	0	27,361	27,361
Restated fund balance - beginning of year	\$ 825,728	\$ 825,728	\$ 853,089	\$ 27,361
<u>Fund Balance - End of Year</u>	\$ 856,550	\$ 852,856	\$ 936,757	\$ 83,901

**TRAVERSE AREA DISTRICT LIBRARY
STATEMENT OF REVENUE AND EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Final Budget	Actual	Variance (Unfavorable) Favorable
<u>Revenue</u>				
Investment income	\$ 3,800	\$ 3,800	\$ 605	\$ (3,195)
<u>Expenditures</u>	0	0	0	0
<u>Excess Revenue Over (Under) Expenditures</u>	\$ 3,800	\$ 3,800	\$ 605	\$ (3,195)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	0	0	0	0
Total other financing sources (uses)	\$ 0	\$ 0	\$ 0	\$ 0
<u>Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses</u>	\$ 3,800	\$ 3,800	\$ 605	\$ (3,195)
Fund balance - beginning of year	\$ 265,203	\$ 265,203	\$ 265,203	\$ 0
<u>Fund Balance - End of Year</u>	<u>\$ 269,003</u>	<u>\$ 269,003</u>	<u>\$ 265,808</u>	<u>\$ (3,195)</u>